How to Allocate Resources to Intellectual Property as a Start-Up

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When a venture is first getting off the ground, there are a lot of items to be considered. Delegating and protecting resources can be of utmost importance to ensure the future profitability and protection of a start-up. However, knowing when and what resources to delegate money towards, can be an often challenging and thought-provoking conversation. With intellectual property (IP), start-ups need to be aware of potential areas where the fat can be trimmed, as well as areas to tread with caution.

Perhaps, one of the biggest pitfalls start-ups may make is accepting help and input from anybody and anyone willing to offer a hand. When a start-up is first getting off the ground, there are a million different things to check off on a to-do list for the founder. Frequently, less important things get pushed down the to-do list as bigger issues need to be accomplished first, such as making sure payroll will be met each week. In some situations, a problem may arise when a friend, employee, or family member makes a contribution to something that the founder is hoping to protect by a patent a little bit further down the line.

Generally, absent an underlying agreement, patent rights will vest in anybody who contributes towards an invention. The contribution could be tiny, or it could amount to 99% of the invention. The amount of the contribution doesn't matter, so long as somebody contributed something, they are entitled to patent rights. This can cause problems, because later down the line, a contributor may look for a cut of the pie when the invention is licensed for millions of dollars each year. A way this can be avoided is to have clear cut employment agreements in place that specify assignment agreements for inventions or contribution made by employees. Assignment agreements are a typical practice, that can vest all rights in invention made by an employee back to the employer. These agreements can save time and money and prevent future awkward conversations. Furthermore, these arrangements are commonplace in the workplace, and help define the expectation for the employee.

Another area where start-ups may try and cut costs is by failing to formulate an IP strategy. Again, as a start-up first starts out, a million decisions have to be made. Frequently, a founder may put off consulting with an IP attorney until later, at a more convenient time. However, as the company grows and develops, and more employees are added, the number of people knowing about the IP grows, as does the chance for a potential disclosure.

Working for a start-up can be an exciting venture with lots to develop and innovate. Frequently an employee may excitedly tell a friend or family member about the cool things they did at work today, or even worse may disclose something not yet protected by a patent at a seminar or trade show. These types of disclosures may be devastating because they can increase the difficulty in later obtaining a patent or disclose costly trade secrets. In the U.S. disclosing your idea such as offering products for sale, publishing an article pertaining to your invention, or disclosing your product at a trade show may trigger a one-year clock to file a patent application. Recently, the Supreme Court even ruled that secret sales count as prior art and trigger the one-year clock to file a patent. After that year, your own disclosure can be used against you by a patent examiner as prior art to block you from getting a patent. Having a clear IP strategy in place can help put mechanisms and channels in place to protect innovations and ensure there is a plan for filing patents. This problem can also be mitigated by filing a provisional patent application on an invention, which holds the place for a non-provisional patent application to be filed within one year, while the invention is refined. Often times, provisional applications can be a great starting place for start-ups as they cost less money to file than non-provisional applications and allow the invention to be enhanced and updated, as for example, engineering bugs are worked out. Filing provisional applications can be part of an IP strategy that allows for a start-up to then pursue non-provisional applications that show great success and promise.

And to mirror the last pitfall, another problem a start-up may face once they do file provisional applications, is to fail to pursue non-provisional applications within one year. Provisional applications are placeholders, preserving an early priority date, that require a non-provisional application to be filed within one year. Failure to file a non-provisional application can result in abandonment of the application and loss of that original priority day. Often times, this would mean the need to file a new application and receive a new priority date. By now it may be more than one year down the line and someone else may have already invented your invention.

As of 2013, with the passage of the America Invents Act (AIA), the U.S. now operates on a first to file system, whereby the first inventor to file a patent application obtains the rights to that invention. Abandonment of an application may not mean abandonment of the invention, but may mean abandonment of an earlier priority date and thus someone else in the interim may file an application. Ultimately, this may result in an inability to obtain a patent. Ensuring that deadlines are met and that non-provisional applications are timely filed is essential for any start-up.

Finally, another potential problem for start-ups can include “relying” on trade secret protection in lieu of filing a patent. While innovations that are patented can be protected instead under trade secret law, having strict measures in place to ensure adequate protection is paramount. Often, trade secret law is complex and requires pure confidentiality. In addition, trade secrets require additional steps such as educating staff about trade secret protections, as well as ensuring staff compliance with non-disclosure agreements. Employees who break confidentiality often have to be let go and can sometimes cause logistical nightmares. Furthermore, with passage of the Defend Trade Secrets Act (DTSA) in 2016, an owner of a trade secret has the right to sue in federal court for trade secret misappropriation. However, in order to be able to sue under DTSA you must show you had a trade secret to even begin with. Failing to provide adequate documentation or proof that a trade secret even exists can be devastating and ultimately result in the loss of the ability to bring suit against a potential leaker. Having a clear IP strategy that outlines which inventions will be protected by trade secrets, and which inventions will be protected by patents can be paramount in ensuring the future vitality of a start-up.

To summarize, there are many different pitfalls that can create problems for start-ups as they are first getting off the ground. Many of these potential problems can be greatly minimized by formulating a strategic plan to create an IP strategy that will provide the most benefit for the start-up, and ensure future success for many years to come.